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C O N F I D E N T I A L SECTION 01 OF 02 WARSAW 003422

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ENERGY FOR OASIA

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TAGS: [ENRG](#) [PREL](#) [PL](#) [GM](#) [RS](#)

SUBJECT: POLISH MINISTRY OF ECONOMY UNCONCERNED ABOUT  
RUSSIAN-GERMAN GAS PIPELINE

Classified By: Laura A. Griesmer, EconOff, Reasons 1.5(b,d).

[11](#). (C) Summary. Polish government officials responsible for energy security are unconcerned about the recent agreement between Germany and Russia to construct a gas pipeline under the Baltic Sea despite almost daily news articles about the proposed project. Our contacts concede that the project is not in Poland's interests, but that Poland has little influence over what they considered a political decision aimed at providing Chancellor Schroeder support before the German elections. They also question the economics of the pipeline and whether it will be constructed. End summary.

#### Public Speculation on Pipeline

[12](#). (SBU) The Polish press has had almost daily articles about the proposed gas pipeline between Russia and Germany which would cross through the Baltic, bypassing normal transit countries including Poland and Ukraine. Many here see the pipeline as yet another example of Russia's demonstration of power in the region. Center-right party learders have also seized on the issue in the final days of the parliamentary election campaign, pledging to "block" the deal if possible. The issue was among the chief topics of discussion at a recent televised debate among party leaders.

#### Ministry of Economy Unsurprised

[13](#). (C) Econoffs met with Halina Trymucha, Director of Energy Security in the Ministry of Economy to discuss her Ministry's assessment of the new agreement. Trymucha emphasized that the Ministry was not surprised about the signing of the agreement, which had been discussed since [1998](#). She and other Ministry experts do not expect construction to ever start, especially as feasibility studies are not available and construction costs will obviously be extremely high. When asked if the construction of the Blue-Stream pipeline from Russia to Turkey was a similar example of a line that most experts felt technically and commercially would never happen, Trymucha did not see a correlation. She believes that the agreement was signed as a gesture of support for Chancellor Schroeder and that commercial requirements, once a feasibility study is completed, will kill the project. Deputy Minister of Economy Malgorzata Ostrowska agreed that the pipeline is a business and political decision, which Poland does not support.

#### Yamal II Update

[14](#). (C) For its part, Poland has done everything it can to work with Russia on building a second pipeline, Yamal II, in the same right-of-way as Yamal I. In 2003, Polish and Russian officials agreed that a governmental decision would be made on Yamal II by the end of 2004. However, according to Trymucha, the Russians placed conditions on the decision that are almost impossible to meet including:  
-- Completion of Yamal I. This condition has not been met as construction was delayed a year and is now expected to be completed by the end of 2005.  
-- Clarification of the ownership of EuroPolGaz company. Russia wants 50/50 ownership of the pipeline with no third parties. Polish law at the time of the establishment of EuroPolGaz required participation of at least three shareholders. Russia is requesting that Gas Trading leave the partnership that includes Gazprom and PGNiG.  
-- Long-term gas contract clarification. Russia is offering more gas than Poland requires and will not agree to re-export of the gas to other European countries.

[15](#). (C) An Inter-governmental committee on economic cooperation was established in December 2004, with Minister of Economy Piechota representing Poland and Minister Levitsky representing Russian. Trymucha noted that the last meeting occurred in July and that the Russians now appear to be waiting the outcome of Polish elections this fall to make decisions. Working groups have continued to meet and the next meeting of the energy sub-committee is scheduled for September 19 to 30 to discuss the Yamal and Ambar feasibility studies. Representatives of the European Commission and

German Embassy are invited to the meetings. Trymucha believes that for the projects to move forward the Lithuanian and Latvian energy companies will need to become involved. In her opinion, while there's good communication at the administrative level with the two countries, there is no cooperation on the part of the energy transmission companies, which will be essential to moving the projects forward.

#### EU Not involved

16. (C) The European Union is not involved in the Russia-German pipeline project and has no influence on it, according to Trymucha. In 2003, Polish Minister of Infrastructure Marek Pol initiated a debate on European gas networks and requested feasibility studies on the Yamal II and Ambar pipelines. At that time, the Northern pipeline was rejected by the EU. Piotr Serafin, Director of the Department of Analyses and Strategies of the Office of the Committee for European Integration told us that Poland raised the pipeline in EU fora before joining, but has not been active in opposing the project as Yamal II and Ambar were given priority by the EC. Now that the EU might fund a feasibility study, he opined that Poland might get more involved, preferring that scarce resources fund the other studies.

#### More cooperation with Ukraine would be Positive

17. (C) Tighter cooperation between Poland and Ukraine on gas and crude oil supplies would be a good idea agreed Trymucha, but must be done in such a way that Russia does not treat them as an act of retaliation. Both Poland and Ukraine have the right to diversify sources of supply.

#### Comment

18. (C) Polish officials see the proposed North Baltic pipeline as a politically motivated project that will not hold up on commercial merits. This could be leading to a false sense of comfort that the pipeline will never actually be constructed. Working level meetings this week on Yamal II and Ambar could result in some progress on those competing routes. Otherwise, it will be up to commercial interests to take the lead to construct a viable alternative.

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